

## Message Text

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ACTION ARA-17

INFO OCT-01 ADP-00 EB-11 STR-08 AGR-20 COME-00 OMB-01

TRSE-00 CIAE-00 DODE-00 PM-07 H-02 INR-10 L-03

NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SS-15 USIA-12

RSR-01 CU-04 HEW-08 /135 W  
----- 076342

R 301250 Z MAY 73

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 7918

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMCONSUL RECIFE

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E. O. 11652: N/A

TAGS: EFIN, BR

SUBJ: STRUGGLE AGAINST INFLATION BECOMES MORE DIFFICULT

REF: BRASILIA 2330, 2905

1. AFTER QUITE FAVORABLE DEVELOPMENTS IN THE FIRST QUARTER OF THE YEAR, IN WHICH THERE WAS SUBSTANTIAL FURTHER PROGRESS IN REDUCING THE RATE OF INFLATION IN COMPARISON WITH THE PRECEDING YEAR, RESULTS FOR APRIL WERE LESS FAVORABLE THAN IN APRIL OF 1972.

2. THE FOLLOWING DATA REPRESENT CHANGES IN THE VARIOUS INDEXES IN PERCENT, APRIL 1973 AND APRIL 1972: GENERAL PRICES -- INTERNAL, 1.5 AND 1.1; WHOLESALE PRICES 1.1 AND 0.7; COST OF LIVING GUANABARA 1.3 AND 0.8, SAO PAULO 1.7 AND 1.22, PORTO ALEGRE 1.8 AND 0.68. THESE HIGHER RATES OF INFLATION IN APRIL RAISED THE CUMULATIVE TOTAL FOR FOUR MONTHS AND TENDED TO CLOSE THE FAVORABLE GAP AGAINST LAST YEAR WHICH EXISTED IN MARCH. FOLLOWING ARE FOUR MONTH  
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COMPARISONS IN PERCENT, 1973 AGAINST 1972: GENERAL PRICES -- INTERNAL 6.5 AND 6.5; WHOLESALE PRICES 5.7 AND 6.3; COST OF LIVING GUANABARA 5.2 AND 5.8, SAO PAULO 5.72 AND 6.64, PORTO ALEGRE 5.59 PERCENT AND 8.82.

3. CONTINUED INCREASE IN FOOD PRICES WAS CITED AS A MAJOR FACTOR IN APRIL RESULTS. HOWEVER, OTHER SECTORS OF THE INDEX SUCH AS HEALTH, EDUCATION, CULTURE, AND INFORMATION WERE ALSO MENTIONED AS CONTRIBUTING.

4. RESULTS IN APRIL MUST HAVE BEEN VERY DISAPPOINTING TO THE GOVERNMENT WHICH IS FINDING IT MUCH MORE DIFFICULT TO SUSTAIN ITS PROGRESS IN ROLLING BACK THE RATE OF INFLATION THAT WOULD HAVE BEEN ANTICIPATED FROM THE GAINS MADE IN THE FIRST THREE MONTHS OF THE YEAR. PARTICULARLY DIFFICULT PROBLEM AREAS HAVE EMERGED IN MEAT AND MILK, TWO COMMODITIES OF GREAT INTEREST TO THE CONSUMING PUBLIC. THE FINANCE AND AGRICULTURE MINISTERS ( THE NEW ONE) HAVE BEEN CONCENTRATING THEIR EFFORTS TO DEAL WITH THESE PROBLEMS. ALSO THE PRICES OF BEANS, AN IMPORTANT STAPLE IN LOW INCOME DIETS, HAS RISEN SHARPLY DUE TO SHORTAGES JUST PRIOR TO THE HARVEST WHICH IS TO BEGIN SHORTLY.

5. RAPIDLY RISING PRICES OUTSIDE BRAZIL HAVE UNDOUBTEDLY EXERTED SOME INFLUENCE IN INCREASING THE PRESSURE OF PRICE INFLATION INSIDE BRAZIL, DESPITE THE EFFORTS OF THE GOVERNMENT TO INSULATE THE NATIONAL ECONOMY AS MUCH AS POSSIBLE FROM THESE EFFORTS. THERE ARE INEVITABLE LEAKAGES IN THE SYSTEM. AS HAS BEEN PREVIOUSLY REPORTED, THE GOVERNMENT HAS INSISTED ON CERTAIN SET- ASIDES IN SUCH COMMODITIES AS MEAT, SOYBEANS AND COTTON, IN ORDER TO ASSURE ADEQUATE SUPPLIES FOR DOMESTIC CONSUMPTION AT REASONABLE PRICES. DESPITE THESE EFFORTS, IT IS APPARENTLY IMPOSSIBLE FULLY TO INSULATE THE BRAZILIAN ECONOMY FROM THE PRESSURE OF VERY MUCH HIGHER PRICES OF MANY COMMODITIES ABROAD. MINISTER DELFIM RECOGNIZED THIS IN HIS UBERABA SPEECH WHERE HE SAID THAT " NO MECHANISM EXISTS CAPABLE OF MAINTAINING FOR AN UNLIMITED TIME IMPORTANT PRICE DIFFERENTIALS BETWEEN THE INTERNAL AND EXTERNAL SECTORS".

6. APRIL RESULTS SHOULD NOT, HOWEVER, BE NECESSARILY CONSIDERED TO BE A TRUSTWORTHY GUIDE TO RESULTS FOR THE YEAR LIMITED OFFICIAL USE

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AS A WHOLE. THE DIRECTOR OF THE BRAZILIAN ECONOMIC INSTITUTE OF THE GETULIO VARGAS FOUNDATION WARNED THAT THERE IS NO "LAW" WHICH SUPPOSES THAT THE BEHAVIOR OF PRICES MUST BE LINEAR. IT IS GENERALLY EXPECTED THAT THE PRESSURE ON SOME PRICES WILL BE ALLEVIATED BY HARVESTS WHICH SHOULD BE REACHING THE MARKET SOON.

7. THE GOVERNMENT, UNDER THE LEADERSHIP OF THE FINANCE MINISTER, IS VERY MUCH ALERT TO THE SITUATION AND IS DOING ITS UTMOST TO MEET THE 12 PERCENT COST OF LIVING TARGET ESTABLISHED BY PRESIDENT MEDICI AT THE BEGINNING OF THE YEAR. IT HAS BEEN SUGGESTED THAT THE STATE VALUE ADDED TAX ( ICM) ON MILK WILL HAVE ITS RATE REDUCED, AND ALSO BE REMOVED COMPLETELY WHEN MOVING FROM THE WHOLESALE TO THE RETAIL STAGE. IT HAS ALSO BEEN REPORTED THAT CERTAIN GOVERNMENT SUPPLIES OF MEAT WOULD BE MADE AVAILABLE DIRECTLY TO SUPERMARKETS IN RIO DE JANEIRO AND SAO PAULO IN ORDER TO HOLD DOWN MEAT PRICE INCREASES IN THOSE CITIES. CONSIDERATION IS BEING GIVEN TO IMPORTING BEANS TO HOLD DOWN THEIR PRICE.

8. THERE IS NO QUESTION BUT THAT THE GOVERNMENT IS FACING A REAL STRUGGLE IF IT IS TO SUCCEED IN CONTINUING TO MAKE FURTHER PROGRESS IN REDUCING THE RATE OF INFLATION IN 1973 BELOW THAT IN 1972.  
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\*\*\* Current Classification \*\*\* LIMITED OFFICIAL USE

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